

NO PROTEST RECEIVED
Release copies to District

Date [REDACTED]

Surname [REDACTED]

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code. We have determined that you do not qualify for exemption under that section of the Code. Our reasons for this conclusion and the facts upon which it is based are explained below.

The information submitted indicates that you were formed [REDACTED] (hereinafter, Hospital) is recognized as exempt under section 501(c)(3) of the Code. You state that you were created in conjunction with the opening of the Hospital in order to help facilitate the exempt purposes of the Hospital. The Hospital's bylaws state that you shall operate as an integral part of the Hospital through your officers, departments, sections, committees and chairman, and shall be responsible and accountable to the Hospital's Board of Directors for the discharge of those duties and responsibilities involving medical care and medical or scientific expertise as delegated from time to time by the Hospital Board. The Hospital's bylaws also state that appointments to you shall be made by the Hospital's Board, and the Board reserves the independent authority to take final action with respect to any individual appointed or reappointed to you or to any individual given clinical privileges or the right to practice in the Hospital, including, without limitation, the authority to expel, suspend, or curtail for cause any privileges granted to any individual during the term for which such individual was appointed.

Your bylaws, dated [REDACTED], and which you submitted as your organizing document (although you state that you have filed tax returns since [REDACTED], state that they were developed and adopted by you to establish a framework for self-governance of your activities and accountability to the Hospital's Board of Trustees. Your bylaws also state that they provide for: (1) the professional and legal structure for your operations; (2) your

[REDACTED]

relationship with the Hospital's Board of Directors as an integrated component of the Hospital; and (3) a system of privileges, rights, obligations, and responsibilities governing you.

Your bylaws state that your purposes are to:

- (1) provide medical care to all patients admitted or treated at the Hospital's facilities in conformance with accepted medical standards;
- (2) monitor and evaluate the quality and clinical appropriateness of patient care and the clinical performance of all individuals with clinical privileges and to identify and resolve problems in care;
- (3) stimulate and assist in the education and training of your members, [REDACTED] nurses, and hospital personnel to the end that medical services may be in conformity with accepted medical standards;
- (4) stimulate and assist in the education and training of medical students, interns, and residents in accordance with the policies, procedures, and requirements of the Hospital and the [REDACTED];
- (5) promote clinical research into medically related problems;
- (6) provide means whereby problems of a medical-administrative nature may be discussed and resolved;
- (7) initiate and maintain medical staff rules and regulations and medical staff policies for conduct of your members in the Hospital related to patient care standards;
- (8) assist with the education of the public in matters of medical care;
- (9) monitor the professional medical competence of your members and the other practitioners by initially evaluating the background, experience, qualifications, and present capability of each applicant for your membership and each [REDACTED] applicant, and by periodically re-evaluating the present capability and performance of each of your members and each [REDACTED] with

[REDACTED]

appropriate recommendations to the Hospital's Board of Trustees; and

(10) safeguard the quality of patient care by recommending to the Hospital's Board of Trustees appropriate delineations and delegation of clinical privileges to your members commensurate with their respective eligibility, qualifications, experience, and present capabilities.

Your bylaws state that membership in your organization is a privilege which is granted by the Hospital's Board of Trustees only to eligible professionally competent physicians, dentists, podiatrists, and psychologists who continually meet the eligibility and qualification requirements set forth in your bylaws, and the policies you adopt from time to time, and the standards and requirements of [REDACTED] law.

In your application you state that your main function is to provide quality patient care, and that this function is performed through education of your staff, as well as medical staff governance in accordance with your bylaws and rules and regulations. You state that your activities include, in order of importance:

- (1) the sponsorship of education meetings including various business meetings;
- (2) the sponsorship of outside speakers who participate in departmental meetings;
- (3) the sponsorship of training programs for your members, including a training program specifically for the Chief of the Medical Staff;
- (4) the funding of legal fees related to expenses incurred associated with the revision of your bylaws and rules and regulations and legal consultation specific to your activities;
- (5) the purchasing of awards plaques to recognize personal achievements of your individual members; and
- (6) the purchase of flowers to recognize personal occurrences (such as deaths and births) within the families of your members.

You state that your financial support is primarily obtained from your members in the form of dues.

Section 501(c)(4) of the Code provides for the exemption from federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that, in general, an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Rev. Rul. 69-631, 1969-2 C.B. 119, holds that a nonprofit organization formed by the active medical staff of an exempt hospital to carry on a charitable program of benefit to the hospital qualifies for exemption under section 501(c)(3) of the Code.

Rev. Rul. 73-349, 1973-2 C.B. 179, holds that an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt under section 501(c)(4) of the Code. The revenue ruling concludes that the organization is operating primarily for the private benefit of its members and any benefits to the community are not sufficient to meet the requirement that an exempt organization be operated primarily for the common good and general welfare of the people of the community.

Rev. Rul. 78-132, 1978-1 C.B. 157, holds that a community cooperative organization formed to facilitate the exchange of personal services among members is operating primarily for the private benefit of its members and is not exempt under section 501(c)(4) of the Code. The organization is described as a private cooperative enterprise for the economic benefit of the members.

In American Women Buyers Club, Inc. v. Commissioner, 236 F.2d 509 (1956), the court affirmed denial of exemption under section 501(c)(4) of the Code to a membership corporation of female ready-to-wear buyers organized to promote the general good and welfare of members in the trade, encourage friendly relations, and give aid to members in distress. Membership, even within the trade, was restrictive as approximately 15 percent of the applicants were turned down. The services provided by the club (such as employment facilities, information about sources of supply, lectures, dinners, installations, publications, and sick and death benefits) were all primarily, if not exclusively, for

[REDACTED]

the club membership. The court commented on the activities of the organization in the following manner:

"...opportunities for recreation and for vocational advancement, enjoyable solely by the membership of a tight little trade association, do not promote 'social welfare' within the meaning of the statute."

In order for an aggregation of individuals to establish their exemption under section 501(c)(4) of the Code, they must first establish that they have organized themselves as a corporation, trust, or association taxable as a corporation. Since you are not incorporated or organized as a trust, you can only be recognized as exempt if you qualify as an association taxable as a corporation. Although you could have separately organized yourself, you have not done so under the facts presented. For example, the medical staff described in Rev. Rul. 69-631, supra, which is distinct from the hospital it serves, is separately organized and must independently establish its right to exemption. As provided in the bylaws of both you and the Hospital, however, you were formed to operate as an integral component part of the Hospital. The Hospital has final authority over your membership, and your officers, departments, sections, committees, and chairmen are all responsible and accountable to the Hospital's Board of Directors. Thus, you are under the direct and absolute control of the governing board of the Hospital and are not separate from it. Therefore, we have determined that although you are self-governed, you are nonetheless merely an arm, branch, or division of the Hospital, and are not an independent organization. Accordingly, we have determined that you are not a separate taxable entity and cannot establish your own exemption from federal income tax.

In addition, where benefits are restricted to a "tight little trade association" or other closed-member group, the requisite community benefit for recognition of exemption under section 501(c)(4) is not ordinarily present. On the other hand, where the benefits are available to a membership open to a cross section of the community, then the requisite community benefit is present. The number of persons benefited is not necessarily conclusive. See Rev. Ruls. 73-349 and 78-132 and American Women Buyers Club, Inc., all supra.

The information you submitted shows that you are a closed-member group, consisting solely of certain professionally competent physicians, dentists, podiatrists, and psychologists, practicing at a single particular hospital. Your benefits are thus not available generally to both members and nonmembers on equal terms, nor to a membership open to a cross section of the

[REDACTED]